Global and Regional Value Chains and Employment and Growth opportunities for South Africa

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Conceptual points regarding GVCs and employment

In an era of globalisation, global value chains (GVCs) drive industrialisation activities (manufacturing, services, agri-processing, minerals and energy) on a global and national scale. GVCs are essentially about global and regional linkages, and hence exports and imports play an important role in fostering industrial employment. These global and regional value chains (RVCs) are themselves driven by powerful lead firms which exercise power (i.e. governance) over chain activities. From an industrial policy perspective aimed at stimulating economic growth, this means, firstly that engaging with, and securing participation of, multinational lead firms is a very important part of the process. Secondly, the possibility of the nation state securing a national process of industrialisation without interacting with these lead firms is no longer a reality. Hence GVC analysis requires viewing industrial issues through a political economy perspective.

Looking at employment through the lens of GVCs we can identify three key challenges which local firms have to overcome:

- Accessing entry into chains in order to create greater employment opportunities. However, simply competing on the basis of lowest price in a chain is insufficient, since other firms entering the chain will seek to compete on similar firms leading to a competitive race to the bottom. Access thus impacts the quantitative type of employment activities that GVCs provide.
- Upgrading of production activities within chains to ensure that firms move into greater rent rich linkages within them. This requires building managerial capabilities and worker skill levels to engage in more complex and higher functional activities. Upgrading impacts the qualitative type of employment opportunities GVCs provide.
- Creating production linkages - forward, backward and horizontal - within chains to widen and deepen local industrialisation. Linkages impact both the quantitative and qualitative type of employment opportunities that GVCs provide.

South Africa and GVCs

South Africa's (SA) manufacturing exports are dominated by the automotive sector. Linking to the global automotive assemblers located in the country is crucial for local firms (whether they be first, second or third tier suppliers) entering these GVCs, and using these linkages to raise capabilities and skills and create value-added activities. The auto industry is often the most advanced manufacturing sector, and its activities raise the general level of industrial capabilities and skill levels across the economy.

In the apparel labour-intensive industries, GVC imports have increased, from China as well as other Sub-Saharan countries (Lesotho, Swaziland, Mauritius and Madagascar), with negative effects on local production and employment. But this has also substantially raised regional employment in Sub-Saharan Africa. In response to such imports recent SA industrial policy initiatives are having a positive impact on increasing local sourcing as well as raising local sector capabilities and skills levels.

Agricultural exports are mostly of a general commodity nature, with the exception of some niche products. In general, there are insufficient agri-processing (i.e. forward linkage) production activities which create value-added products and more skill-intensive employment.

Minerals are still an important component of the export basket but these are generally confined to raw materials. Forward linkages (e.g. beneficiation) within chains are limited, whilst substantial backward linkages into the minerals machinery sector, an important part of country's economic history, have been hollowed out in recent decades.

Constraints

The SA economy has slowed to a crawl and is beset by economic problems. From a GVC perspective this stems from an inability to tackle critical political problems - e.g. corruption and energy governance failure - which cannot be separated from the operations and failings of the SA state.

Foreign direct investment (FDI) has dried up because global lead firms are extremely wary of investing, primarily for political reasons driving risk. These firms are not being seduced by simple promises of a new dawn. They will not invest in this economy until they see tangible movement, and visible progress, in charging and finding guilty the perpetrators of corruption and state capture. They regard the governance risks as too great and feel that policy certainty is undermined by a lack of overt action. We can see this clearly in the energy crisis and its economic consequences.

The economic problem of failing energy supplies, a consequence of the meltdown of Eskom and the stalling of renewable energy (RE) alternative options, is a good example of political failure impacting economic problems. Stable energy supplies are a necessary foundation for any mature industrial growth in SA. It is clear that Eskom cannot meet this challenge and the carbon intensive path characterising SA's previous industrialisation path has to be superseded. By 2015 SA was a global RE leader, in terms of its highly successful auction bidding policy framework. This led to large foreign owned utilities investing in a vibrant wind and solar RE sector, bringing around $20 billion in investment. Large multinational corporations (MNCs) (e.g. Siemens, Vestus etc.) which controlled the global RE value chain entered and encouraged their global first tier suppliers (e.g. in tower and blade production) to set up local plants. The knock-on effect for localisation was substantial, facilitating the emergence of suppliers in manufacturing, logistics, and services - i.e. local backward linkages. This green industrialisation path impacted not only new levels of employment, but also skill levels and managerial capabilities, especially in services feeding into this growing RE sector.

However, it all came to an abrupt halt, fundamentally because of political machinations within the state as a corrupt predatory elite (in the private sector and government) diverted funding from state-owned enterprises into their own pockets. In the process they not only bankrupted Eskom, but also blocked the burgeoning private sector driven RE process, which they regarded as an energy competitor. The Zuma government stopped the bidding process and the RE programme ground to a halt by 2015. Continuity and predictability of the bidding process, a necessary foundation for implementation success of the RE programme, was disrupted. FDI consequently dried up, and the industrial localisation momentum was stopped in its tracks. The wind blade MNC shelved its plans for setting up a plant. The tower MNC, with its deep pockets, cut manufacturing capacity and resorted to exporting to other markets while they waited for a new bid window to be opened. Local firms either went bankrupt or found ways of operating with shrinking capacity. Successful service firms built with MNC support were able to use this to export their activities to Europe. The economic stalling of this new green industrialisation path was essentially grounded in political and policy failure.

Solutions

As is the case in terms of corruption, this green industrialisation problem will not be solved without government showing it is capable of decisive political action. What is required is a fundamentally new approach to Eskom, unbundling it and finding ways to shift its massive corruption induced debt from national players to include global ones. The Green Climate Fund resources can be tapped for blended finance loans, based on shifting from the current carbon intensive emission path to a substantial commitment to a renewable energy path. But this requires unbundling Eskom's current vertically integrated corporate structure into three sets of independent enterprises – generation, transmission, and distribution. This would create a domestic value chain driven by an independent state-owned transmission enterprise which sources energy from public and private sector generating entities and sells electricity to a variety of distribution channels. Unbundling would furthermore create the conditions to resurrect the RE programme, guaranteeing policy continuity and predictability for global players to engage and drive a green industrialisation path.

However, this is not happening because of political failure - an inability on the part of the state to act decisively. There appear to be destructive differences of opinion, strategy and tactics within the Ramaphosa camp paralysing state action. The president has seemed politically unable to ensure unified and definitive government intervention to tackle these economic energy problems. In sharp contrast to his decisive and commendable response to the coronavirus crisis, he has thus far exhibited little of the same leadership in dealing with divisions between his Ministers, within the dominant political party, and government institutions. However, the health crisis may well change the landscape. It is to be expected, that once SA has emerged from this crisis, the President will be able to demonstrate similar unifying leadership to drive political solutions to what appear to be economic problems, with significant positive consequences for growth and employment opportunities in SA.

In conclusion, without decisive political intervention on the part of the government, some of the major economic problems bedevilling growth and employment will not be overcome. Foreign capital will not invest, MNCs driving global value chains will be extremely wary of setting up operations, and the localisation of industrial activities through linkage development will remain unfulfilled. Employment will not grow in quantitative terms, and the foundational basis of our managerial capabilities and worker skills will not move to a new structural level.